Drivers Jonas Deloitte.

Greater Norwich Development Partnership

Affordable Housing Viability Study: Stakeholder Event

Monday 28 June 2010

Speakers

Steve Billington
Director, Residential
020 7303 3417
sbillington@djdeloitte.co.uk

David Wakeford
Senior Surveyor, Residential
020 7303 4103
dwakeford@djdeloitte.co.uk

Agenda

1. Introduction
2. Our brief
3. Methodology
4. Viability
5. Q & A
6. Next steps

Drivers Jonas Deloitte.

Introduction

Greater Norwich Development Partnership

- Collaboration between 5 public bodies:
  - Norwich City Council;
  - Broadland District Council;
  - South Norfolk Council;
  - Broads Authority;
  - Norfolk County Council.

Greater Norwich Development Partnership

- *“working together to manage delivery on the Government’s housing and job growth targets”*

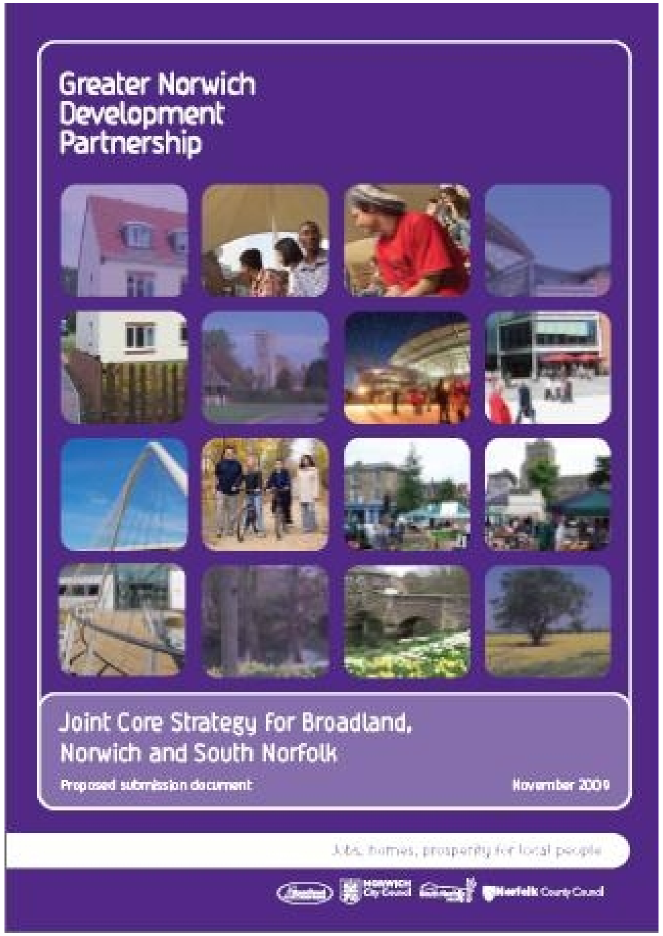
- Aim: 37,000 new homes and 27,000 new jobs by 2026

Drivers Jonas Deloitte.

Planning Context: The Headlines

- The Joint Core Strategy
  - Will be a key document in each of Broadland, Norwich and South Norfolk's LDF

- Will comprise planning policies on housing and development, including affordable housing

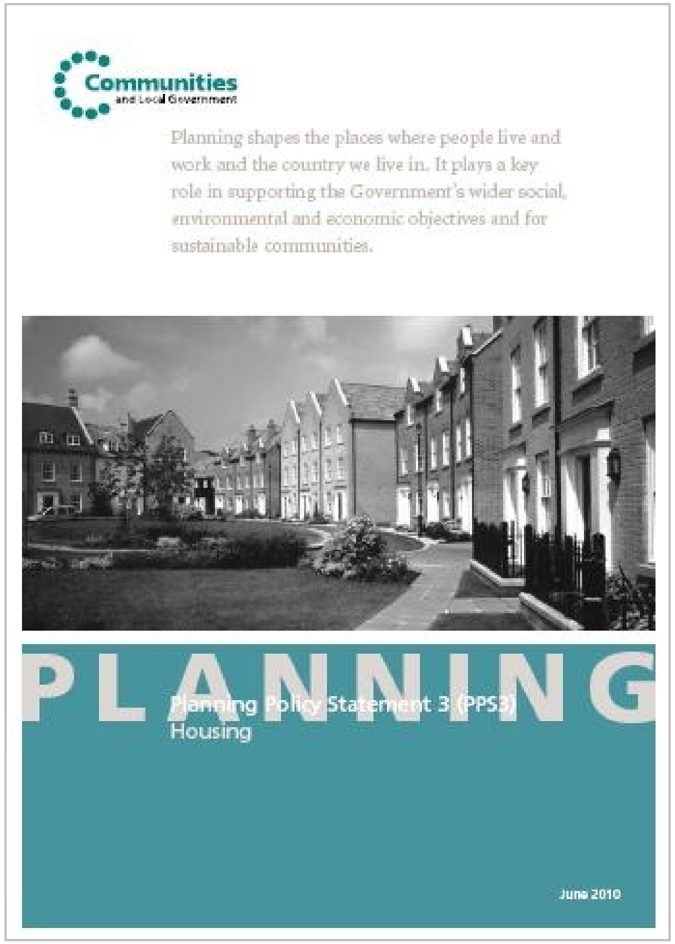


Drivers Jonas Deloitte.

Planning Context: The Headlines

- Planning Policy Statement 3: Housing (PPS3)
  - To be taken into account by Local Authorities when preparing their Local Development Frameworks
  - Local Authorities should :

    “*Set an overall (ie plan-wide) target for the amount of affordable housing to be provided. The target should … reflect an assessment of the likely economic viability of land for housing within the area, taking account of risks to delivery and drawing on informed assessments of the likely levels of finance available for affordable housing, including public subsidy and the level of developer contribution that can reasonably be secured…”*



- “Economic Viability”

Drivers Jonas Deloitte.

Our Brief

Our Brief

Set by GNDP:

"to undertake an Affordable Housing Viability Assessment in line with Planning Policy Statement 3 including an informed assessment of the economic viability of a range of possible housing sites across the GNDP area in a range of market conditions and planning requirements"

Key Factors to consider:

- Comments from Exploratory Meeting with Planning Inspector in May 2010
- Comments on the draft JCS, made by Planning Assessor in May 2010
- PPS3
- Affordable housing policies, within draft JCS Policy 4 (40% affordable housing, 70/30 split, threshold of 5 units/0.2Ha)

Drivers Jonas Deloitte.

Methodology

Our Approach

- Residual appraisal model to assess development land values
- Output compared to a range of existing/alternative land values

Drivers Jonas Deloitte.

The concept

- We consider a hypothetical 1 hectare site
- Without planning consent
- Appraisal considers potential cost, revenue and density scenarios
- Compares output values to a range of release values

Drivers Jonas Deloitte.

The inputs are the important bit…

- We propose that the Study considers how land values are affected by changing key inputs such as:

  - Market Values
  - Affordable housing targets
  - Affordable tenure split and values
  - Social housing grant
  - Density
  - Build costs
  - Market conditions

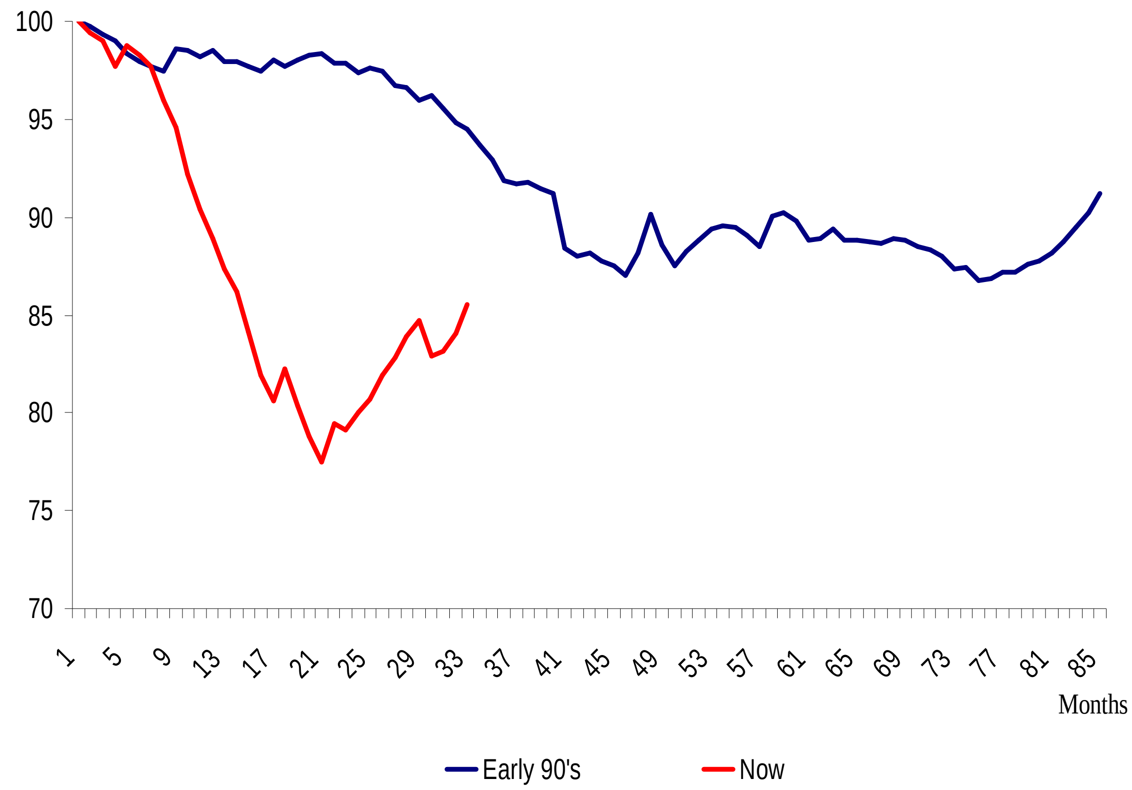
- *Total number of combinations appraised: over 180,000*

Drivers Jonas Deloitte.

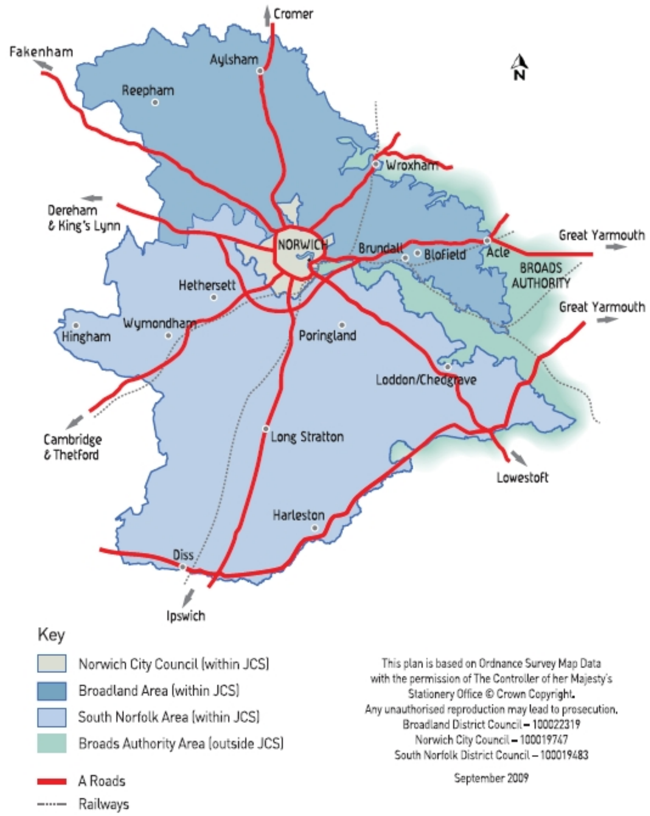
Market Values

- We propose that the Study considers Market Values ranging from £1,250psm to £4,500psm (£115psf to £420psf)
- Covers current range in new build prices throughout the policy area, with an allowance for potential future trends

UK Residential Property Capital Value Falls From Peak



The Policy Area



Drivers Jonas Deloitte.

Affordable Housing Targets

Our model proposes to test viability under a range of affordable housing targets:

- 20%
- 30%
- 40%

Drivers Jonas Deloitte.

Affordable Tenure Split and Values

- Two tenures considered:
  - Social Rent
  - Intermediate
- Tenure Splits considered:

Social Rent	Intermediate
85%	15%
70%	30%
60%	40%

- Intermediate units to target intermediate incomes – those who can afford more than social rents, but cannot afford open market prices.
- Income ranges appraised between £12,500 to £40,000, depending on unit type, and private Market Values

Values assessed using industry standard software, Proval

Drivers Jonas Deloitte.

Social Housing Grant

We propose to consider three options:

- No grant
- With grant
- With grant on social rent only

Homes & Communities Agency

Average grant levels have been taken from data published by the Homes and Communities Agency, from between Q4 2008 and Q4 2009:

Social Rent: £46,900 per unit

Intermediate: £26,100 per unit

Drivers Jonas Deloitte.

Density

Policy guidance:

- Broadland Local Plan: 30 to 50 units/Ha
- South Norfolk Local Plan: 27 to 30 units/Ha
- Norwich Local Plan: at least 40 units/Ha for new sites (allocated sites range from 25 to 100 units/Ha)
- Draft JCS: density to vary *“according to the characteristics of the area, with the highest densities in centres and on public transport routes”*

We propose to assess several densities, in a range from 25 to 100 units/Ha

Drivers Jonas Deloitte.

Build Costs

We propose to appraise several build costs options, to account for:

- Density
- Sustainability

Range of build costs used: £800 psm to £1,800 psm (around £75 psf to £170 psf)

Drivers Jonas Deloitte.

Market Conditions

To account for weak, neutral or strong housing markets, we propose to have a number of variable inputs in our appraisals, such as:

- Developer's Profit
  - 17.5% on cost in a strong market
  - 20% on cost in a neutral market
  - 25% on cost in a weak market

- Sales rates
  - Between 2 and 7 units a month depending on market / scheme size

Drivers Jonas Deloitte.

Others

Many other inputs in the model, which are on the whole fixed, the key ones we propose being:

- Unit Mix: Taken from research undertaken for JCS evidence base.
- Section 106 costs: £7,000 per unit
- Professional fees: 12%
- Contingency: 5%
- Planning costs: £300 per unit
- Finance: 6.5%
- Sales & Marketing Costs: 3.5% of GDV

Drivers Jonas Deloitte.

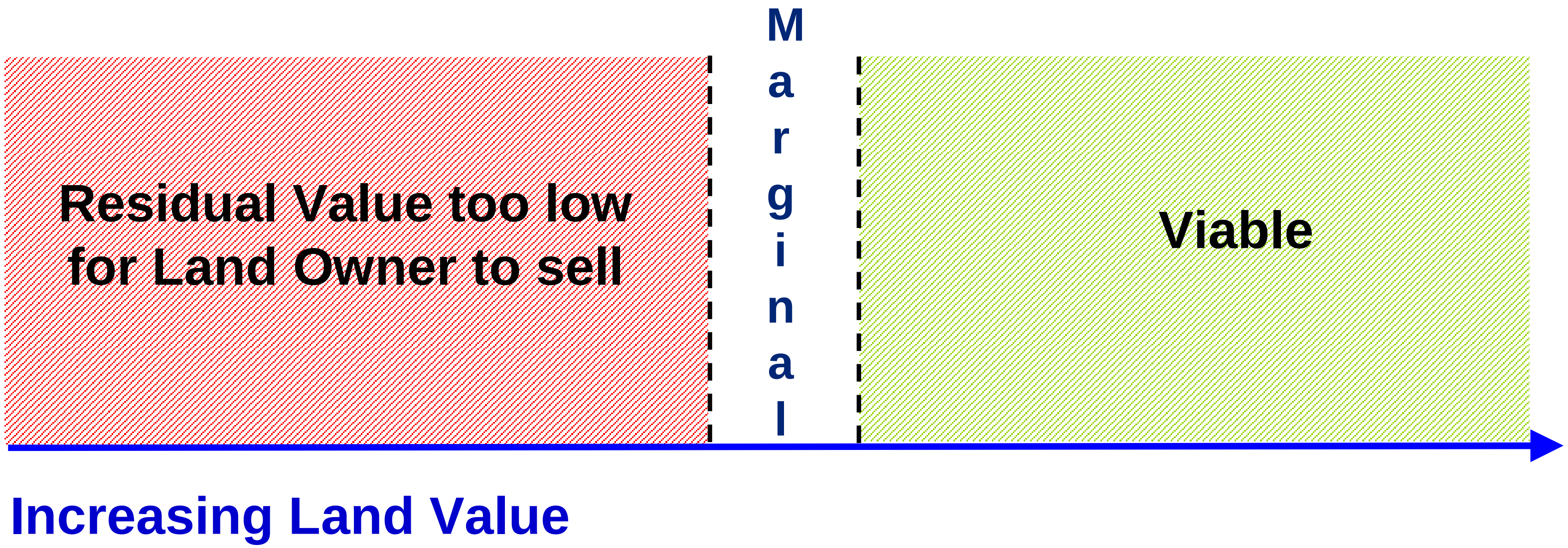
Viability

The Output

- Over 180,000 residual land values
- Estimates of the maximum amount a developer would pay for hypothetical sites in the GNDP policy area.
- But is this ‘viable’?

Drivers Jonas Deloitte.

Viability


Residual Value too low for Land Owner to sell
Marginal
Viable
Increasing Land Value

Benchmarking

We can accurately assess land values. How do we assess viability?

- Need to consider existing land values, and estimate a premium that would entice a land owner to sell.

Brownfield:
Relatively high existing use value

Greenfield:
Relatively low existing use value

Drivers Jonas Deloitte.

Existing/Alternative Use Values

- Existing Use Value – effectively, the current land value ignoring ‘hope value’
- Fallback position if consent not granted
- Alternative Use Value – value of e.g. an office led development
- Landowners return or uplift in excess of EUV/AUV: The Benchmark.

Recent planning case law suggests a premium of 10% to 20% on Existing Use Value of Brownfield land is sufficient.

Little case law relating to Greenfield. Our experience suggests land sells for between 2x and 10x EUV.

Drivers Jonas Deloitte.

Benchmarks

We propose five Benchmarks for each Local Authority:

- Low Brownfield EUV + 15%
- Mid Brownfield EUV + 15%
- High Brownfield EUV + 15%

- Greenfield EUV of £20,000 per hectare (Source: VOA and comparable evidence)
  - Low - x 2
  - Mid - x 5
  - High - x10

Over 180,000 land values, assessed against five benchmarks

=

Almost 1 million tests of viability

Drivers Jonas Deloitte.

Questions & Discussion

Greater Norwich Development Partnership

Affordable Housing Viability Study

Stakeholder Event

28th June 2010

Present

Steve Billington	SB	Drivers Jonas Deloitte	Steph Doylend	SD	Housing Expectations Ltd
David Wakeford	DW	Drivers Jonas Deloitte	Samantha Wilcockson	SW	Housing Expectations Ltd
Mark Philpot	MP	Ingleton Wood	Jenny Bright	JB	Lovell Partnership
Colin Campbell	CC	Savills	Mike Sugden	MS	Lovell Partnership
Brian Belton	BB	G. Durrent & Sons	Paul Mathews	PM	The Landscape Partnership
Peter Wilkinson	PW	Landmark Planning Ltd	Michael Haslam	MH	Michael Haslam ??
Neil Murphy	NM	Beyond Green / Blue Living	Graham Tuddenham	GT	United Business and Leisure
Mike Golding	MG	HCA	Steve Hinsley	SH	Tellow King
Mark Bartram	MB	Bartram Mowers	Malcolm Vincent	MV	Vincent Homes
Paul Knowles	PK	Building Partnership	John Long	JL	Bidwells
Roger Burroughs	RB	GNDP	Alison Spalding	AS	Norwich City Council
Helen Lambert	HL	GNDP	Helen Bartlett	HB	GNDP
Hugh Ivins	HI	Chartered Planning Consultant			

Notes from the meeting

SB Outlined the brief and Methodology of the study

Question: North Norfolk District Council is working on levels of affordable housing between 25%-50%.
For this brief Drivers Jonas Deloitte will look at 20%, 30% and 40%

Question: Following the comments from Nigel Jones, need to look at different levels of HCA grant with the additional possibility of a lower level of grant on social rented. No grant should be the default position.

This might lead to a base line target with a higher aspirational target if grant available [HCA].

It is unlikely that grants will disappear completely and therefore we would like scenarios with grants as well.

Question: Lots of work has been done around viability in Norwich, but not so much in Broadland and South Norfolk.
Will the study differentiate between the rural and urban areas?

There may be a case for differentiating policy based on differing viability across the area which varies widely

The methodology seeks to distinguish between the three areas, the results from this study will inform the policy

Question: Methodology seems to be heavily reliant on averages e.g. levels of grant

Average grant levels have been taken from the HCA for the last 3 years in this area. This will used to establish a baseline and work on a sliding scale from this.

We are trying to get an affordable housing target that can be used on a site specific basis.

Question: Around build Costs: Range of building costs used £75 – 170psf, however recently in Watton average of £85 psf was accepted. Feeling that some of the build costs are on the high side.

Question: Section 106 costs £7,000 – cost per unit? This seems very low. Can CIL be factored into the model? Whether a higher land value capture figure to account for the introduction of CIL or tariff could be introduced to the calculation.

CIL is a scenario that can be dropped into the model if needed, but at the moment the model is running on S106 costs. Discussion after the meeting whether £10,000 and £15,000 could be tested as this looks to be closer to the emerging work on the IDP – the latter figure may well apply only to market housing in view of the likely CIL/tariff Regulations.

Question: Major area of challenge is about the degree of uplift on greenfield land values which is required to persuade the landowner to sell compared with the model's assumptions of 200% 500% and 1000%. Much scepticism about this, and a suggestion that there needs to be some relationship with the land values assumed in the 2009 AECOM report into infrastructure needs and funding where Drivers Jonas did the market assessment section.

Drivers Jonas Deloitte to take further advice from relevant colleagues back at office, compare figures AECOM report and see if any local market intelligence is available to support chosen numbers.

There was come criticism that the workshop did not amount to sufficient dialogue with landowners as required by the inspector.

Question: Why the hypothetical 1 hectare site was chosen and scepticism expressed as to whether this could be simply factored up or down to take account of the varying circumstances of larger strategic sites on the one hand or smaller sites at the margin of the proposed threshold of 5 units on the other.

Question: Policy uses 5 units as a minimum level, discussion around a 10-15 unit level being more suitable.

Question: Derivation of the assumed section 106 contribution of £7000 per dwelling and challenge about the consistency of assumptions of a serviced site in terms of build costs and a greenfield site without planning permission in terms of land price assumptions [is this consistent in that builds costs assume/take into account on site provision of utilities etc while section 106 assumptions include upgrading infrastructure in the surrounding area?].

Question: Drivers Jonas Deliotte asked to provide concrete examples of sites which have realistically come forward using these figures. The concern was that figures could be 5 or 10 years old before sites come forward due to the timescales of the process.

Question: Around build and infrastructure costs, how can a Greenfield site with no planning consent be fully serviced?

Drivers Jonas Deloitte Drivers Jonas Deloitte confirmed they were happy to share the model [in the form of a spreadsheet already populated as a read only reference source]

Question: Using SHLAA can the model be tested on real sites?

Drivers Jonas Deloitte agreed that in view of the need to rerun number crunching with potentially different numbers, it would be unrealistic to have a complete draft final report by 2 July as originally intended, but the presentation to on 2nd Directors would include some initial numbers and highlight the 3 to 4 key issues.

Final report will be taken to Directors meeting on 9th July for sign off.